



Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Paul Krutko

**SUBJECT: CRITERIA FOR USE OF
ECONOMIC INCENTIVE FUND**

DATE: May 16, 2007

Approved

/s/

Date

05/17/07

During the Community and Economic Development City Service Area Budget Study Session on May 7, 2007, a question arose about what criteria would be utilized to evaluate whether various economic development opportunities are eligible for the Economic Incentive Fund. This memorandum provides information and analysis of the criteria for the use of the Economic Incentive Fund.

BACKGROUND

In the rapidly changing Silicon Valley economy, unanticipated economic development opportunities occasionally arise which have the potential to impact our local economy significantly. These driving industry companies compete in sectors where San José has specialized expertise and strong concentrations of employment relative to the national average (i.e. Cisco, Adobe, eBay, etc) and serve customers nationally and globally. Driving industry jobs pay above-average wages and bring new income into the community. Research indicates that one driving industry job supports the creation of two or more jobs in the Business-Support and People-Serving Industries through the demand created for goods and services.

In the past, the Office of Economic Development has lacked the resources to respond quickly to market opportunities that would strengthen the San José economy. In an effort to remedy this, the City Manager has proposed establishing a fund that would be available to incentivize extraordinary and unanticipated economic development opportunities to create jobs in San José, such as the recent success of securing CleanTech solar company Nanosolar.

ANALYSIS

As stated on page VII-124 of the 2007-2008 Proposed Operating Budget, “the account would only be utilized for unanticipated and extraordinary projects that may require financial incentives to ensure the creation of new jobs in San José and a corresponding increase in City revenues.”

To determine whether a given economic development opportunity meets the threshold of ‘unanticipated and extraordinary,’ the Office of Economic Development will consider the following:

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1. Does the company meet the City's definition of a driving industry (Computer technology, Bioscience, CleanTech, Nanotech, Informatics, etc)?
2. Does the company have the potential to create from 10 to 100 jobs within the next two years?
3. Will the company's headquarters be located in San José?
4. Does the business activity of the company have the potential to generate significant revenues for the City?
5. Does the company have significant locational options (regionally, nationally, or internationally) and require assistance to ensure that the site selected is in San José?

Companies that meet these tests will provide the economic stimulus identified in the City's Economic Development Strategy as critical to creating a vital community.

/s/

Paul Krutko
Chief Development Officer